

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF       )  
CHESAPEAKE UTILITIES CORPORATION       )  
FOR APPROVAL OF A CHANGE IN ITS       )     PSC DOCKET NO. 18-1056  
GAS SALES SERVICE RATES ("GSR")       )  
TO BE EFFECTIVE NOVEMBER 1, 2018       )  
(FILED AUGUST 31, 2018)                )

**ORDER NO. 9381**

**I.     PROCEDURAL HISTORY**

1.     On August 31, 2018, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission ("Commission") the above-captioned application ("Application") seeking approval to change its Gas Sales Service Rates ("GSR") effective for usage on or after November 1, 2018, as follows:

<b>Rate Schedule</b>	<b>Present Rate</b>	<b>Proposed Rate</b>
RS-1, ERS-1, RS-2, ERS-2, USA-R, GS, EGS, USA-G, MVS, EMVS, USA-M, LVS	\$1.023 per Ccf	\$0.833 per Ccf
GLR, GLO	\$0.468 per Ccf	\$0.362 per Ccf
HLFS	\$0.782 per Ccf	\$0.630 per Ccf

The Company also proposed the following changes to its firm and interruptible balancing rates for transportation customers:

<b>Rate Schedule</b>	<b>Present Balancing Rate</b>	<b>Proposed Balancing Rate</b>
GS/EGS/USA-G	\$0.093 per Ccf	\$0.133 per Ccf
MVS/EMVS/USA-M	\$0.111 per Ccf	\$0.158 per Ccf
LVS	\$0.084 per Ccf	\$0.107 per Ccf
HLFS	\$0.014 per Ccf	\$0.010 per Ccf
ITS	\$0.011 per Ccf	\$0.001 per Ccf

2.     On September 25, 2018, the Commission issued Order No. 9272 after determining, pursuant to 26 Del. C. §§ 304 and 306, that the proposed GSR and balancing rate changes should be permitted to become effective for usage on and after November 1, 2018, subject to refund and

pending the Commission's further review and final decision.

3. In addition, Order No. 9272 established a deadline for intervention petitions of October 31, 2018, and afforded interested persons or entities the opportunity to file written comments or objections to the proposed rate changes by November 30, 2018.

4. The Delaware Division of the Public Advocate ("DPA") filed its Statutory Notice of Intervention on September 12, 2018.

5. Chesapeake published notice of the filing of its Application in *The News Journal* and the *Delaware State News* newspapers on October 8, 2018. (Hearing Exhibit 1.) The Commission did not receive any other petitions to intervene nor any written comments or objections from any person or entity.

6. The Commission scheduled the public evidentiary hearing for May 7, 2019. On April 9, 2019, and April 10, 2019, Chesapeake published notice of the evidentiary hearing in *The News Journal* and the *Delaware State News* newspapers, respectively.<sup>1</sup> (Hearing Exhibit 1.)

## **II. PRE-HEARING TESTIMONY**

7. With the Application (Hearing Exhibit 2), the Company filed the written direct testimony and schedules of Marie E. Kozel, a Regulatory Analyst III with the Company. (Hearing Exhibit 3.) Ms. Kozel described the mechanics of the three GSR charges, explained the development of the firm and interruptible sales volumes and total system requirements, and discussed the development of the unaccounted for gas volumes. In addition, Ms. Kozel supported the overall calculation of the

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<sup>1</sup>The notices of the evidentiary hearing included the revised proposed balancing service rates, as described *infra*, at paragraph 17.

three proposed GSR charges, as well as the mechanics of the proposed balancing rates for transportation service. Ms. Kozel also illustrated the impact of the proposed GSR charges on an average residential customer's bill and demonstrated the Company's compliance with the gas cost provisions outlined in previous Commission orders.

8. Ms. Kozel testified that compared to the rates that were in effect November 1, 2017, an average RS-2 customer using 700 Ccf per year will experience an annual decrease of approximately 11.79%, or \$11.08 per month, under the proposed rates. During the winter heating season, a typical RS-2 customer on Chesapeake's system using 110 Ccf per month will experience a decrease of approximately 13.08%, or \$20.90 per winter month. A typical RS-2 customer using 120 Ccf per winter month will experience a decrease of approximately 13.27%, or \$22.80 per winter month.

9. Also with the Application, the Company filed the written direct testimony of William R. Kriss, Manager of Gas Supply and Transportation Services. (Hearing Exhibit 4.) Mr. Kriss provided support for the gas costs used in the calculation of the three proposed GSR rates to be effective with service rendered on and after November 1, 2018. Mr. Kriss also discussed the Company's gas supply and procurement activities as required by Commission Order No. 4767, issued on April 14, 1998, in the Company's GSR filing in Docket No. 97-294F.

10. On February 27, 2019, Commission Staff ("Staff") filed the written direct testimony of Connie S. McDowell, Senior Regulatory Policy Administrator, and Staff and DPA ("Staff/DPA") filed the written direct testimony of Jerome D. Mierzwa, a Principal and Vice President of Exeter

Associates, Inc. (Hearing Exhibits 5 and 6, respectively.) Ms. McDowell testified that she examined the Application and supporting schedules; Chesapeake's responses to data requests; prior GSR dockets, orders, and settlement agreements; and Chesapeake's quarterly hedging reports and Long-Term Supply and Demand Strategic Plans ("Supply Plans") for the last five years. Ms. McDowell recommended that the Commission approve the proposed GSR rates. Ms. McDowell also recommended that the Commission increase the rates charged to transportation customers for released Eastern Shore Natural Gas ("ESNG") capacity and the proposed balancing service charges by 4.6%, for the reasons provided by Staff/DPA witness Mierzwa in his prefiled testimony.

11. Mr. Mierzwa testified that he reviewed Chesapeake's Application and its gas procurement practices and policies. Based on his review, Mr. Mierzwa recommended that the Commission direct Chesapeake to increase the rates charged to firm transportation customers for released ENSG capacity by 4.6%, and to direct a similar increase in the charges for balancing service for transportation customers. Mr. Mierzwa also recommended that several provisions of the settlement approved in Chesapeake's 2017 GSR proceeding in Docket No. 17-1021 be extended for at least an additional year.

12. Mr. Mierzwa testified that neither the charges that the Company assigns to transportation customers for released ENSG capacity nor the ENSG capacity costs included in the charges for balancing service include the costs associated with ENSG's recent expansion project ("2017 Expansion Project"). ENSG placed its 2017 Expansion Project in service in July 2018 (10,000 Dth/day) and in December 2018 (6,500 Dth/day).

According to Mr. Mierzwa, the costs associated with the 2017 Expansion Project should be assessed to the transportation customers because it is the growing market demands of both the GSR sales customers and the transportation customers that required Chesapeake to acquire the incremental expansion capacity from the 2017 Expansion Project.

13. To properly include such costs, Mr. Mierzwa recommended that the Company increase the rate at which it releases ESNG capacity to transportation customers by 4.6% and that it similarly increase the charges for balancing service. Mr. Mierzwa recommended 4.6% increases because Chesapeake's average cost of ESNG capacity increased by 4.6% with the addition of the capacity from ESNG's 2017 Expansion Project. Mr. Mierzwa estimated the impact of his recommendation would be an increase of \$466,000 in the costs assigned to transportation customers and a corresponding decrease in the costs assigned to GSR customers. Rather than adjust the GSR rates upon the Commission's approval of his recommendation, which likely would not occur until June 2019, Mr. Mierzwa recommended that GSR rates remain the same but that additional revenues collected from transportation customers be reflected in the Company's over/under collection balance until the Company's next GSR application.

14. Mr. Mierzwa also testified that the following provisions of the settlement agreement approved in the Company's 2017 GSR proceeding, PSC Docket No. 17-1021, should be continued:

**Item 1.** The Company should continue to monitor the level of its over/under collection balance to determine whether a change in the methodology used to calculate its GSR rate is necessary. The Company should hold quarterly discussions with the Staff and DPA, at their request, for the purpose of review the Company's over/under collection balances, hedging program, and other areas of

interest to the Settling Parties, such as what measure could be implemented in the Company's annual GSR filing to reduce the volatility of GSR rates caused by the amortization of gas cost over-and-under collections.

**Item 2.** The Company should continue to utilize its annual Supply Plan as a mechanism by which to notify the Settling Parties of the need for all new capacity additions. When the Company needs to acquire capacity that was not previously identified in its most recent Supply Plan, the Company should provide the information agreed to in the Settlement Agreements to PSC Docket Nos. 08-269F and 09-398F regarding ESNG capacity acquisitions and to continue to provide this information for potential upstream capacity additions as well.<sup>2</sup> The Company should provide this information for both ESNG and upstream capacity on a confidential basis only. The Company should continue to review its design day forecasting methodology each year at the time the Supply Plan is developed to ensure its validity. The Company should also review and comment on any alternative design day forecasting methodology proposals submitted by either Staff or the DPA during the course of any review of the Company's Supply Plan.

**Item 3.** Chesapeake should continue to provide Staff and DPA with periodic updates regarding any intervention by the Company in Federal Energy Regulatory Commission ("FERC") proceedings and actions taken by the Company on behalf of the Company's ratepayers, including, but not limited to, an enumeration of each issue and the position that the Company is actively pursuing. The Company should provide such periodic updates to Staff and DPA subject to the Company's ability to provide

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<sup>2</sup>In the Settlement Agreements in Docket Nos. 08-269F and 09-398F, the Company agreed to provide (on a confidential basis and for informational purposes only) an evaluation of the need for the new capacity addition. The evaluation would include, but not be limited to, an analysis of the options the Company considered, any applicable cost benefit analysis, and support for any updated design day projections. Staff and DPA would have an opportunity to comment on the Company's evaluation, provided that all such comments would be submitted to the Company within fifteen (15) business days after receipt of the Company's evaluation. See PSC Docket No. 08-269F Proposed Settlement at Paragraph 8 (attached as Attachment "B" to Order No. 7607, dated July 7, 2009) and PSC Docket No. 09-398F Proposed Settlement at Paragraph 7 (attached as Attachment "B" to Order No. 7837, dated September 7, 2010).

this information on a confidential basis when appropriate.

**Item 4.** As agreed in prior dockets, the Company should continue with the following practices: (a) the Company will notify Staff and the DPA of any supplier refunds that may impact the GSR charges; (b) the Company should continue to include in future GSR applications an update on steps taken to mitigate the effects of changes in gas costs; (c) the Company should provide information on the total sales volumes, costs, and margins by month for Interruptible Gas Transportation sales as part of its GSR applications; and (d) the Company will calculate the impact on its proposed GSR rates had a thirty-year average degree days been used and provide such information as part of the discovery process, when and if requested.

### **III. EVIDENTIARY HEARING**

15. On May 7, 2019, the Commission conducted a duly-noticed public evidentiary hearing at its regularly scheduled meeting. No members of the public appeared or otherwise offered comment. At the start of the hearing, the Commission Chairman admitted the six exhibits referenced above into the record without objection.

16. In opening remarks, the Company, Staff and DPA each recommended approval of the GSR rates as filed and each indicated their agreement to continue the identified provisions of the settlement agreement approved by the Commission in the last GSR proceeding, PSC Docket No. 17-1021, as recommended by Staff/DPA witness Mierzwa. The parties also indicated that, on April 1, 2019, after several communications between the parties relating to Mr. Mierzwa's recommendations, Staff/DPA reached an agreement in principle with the Company which, if approved by the Commission, will resolve all issues in this docket.

17. According to the parties, their agreement calls for the Company

to allocate a portion of all of the transportation and storage assets used to balance transportation customers' usage on a peak demand day (or "design day"), including the 2017 Expansion Project, to the balancing rates charged to the transportation customers. The portion of such costs allocated will be based on the transportation customers' proportion of the load on a design day. The new cost allocation results in an increase in costs assigned to the balancing rates paid by transportation customers.

18. The parties also agreed that the revised proposed balancing rates will be effective on and after June 1, 2019. The GSR rates will remain as proposed but the additional revenues collected from transportation customers will be reflected in the Company's over/under collection balance until the Company's next GSR application.

19. After opening remarks, Company witness Kozel testified that the new cost allocation, as agreed upon by the parties, results in an increase in costs assigned to balancing rates of \$356,924, and yields the following balancing rates:

<b>Rate Schedule</b>	<b>Originally Proposed Balancing Rate</b>	<b>Revised Proposed Balancing Rate</b>
GS/EGS/USA-G	\$0.133 per Ccf	\$0.159 per Ccf
MVS/EMVS/USA-M	\$0.158 per Ccf	\$0.189 per Ccf
LVS	\$0.107 per Ccf	\$0.127 per Ccf
HLFS	\$0.010 per Ccf	\$0.012 per Ccf
ITS	\$0.001 per Ccf	\$0.001 per Ccf

Ms. Kozel testified that the proposed rates are just and reasonable.

20. Staff witness McDowell testified that the proposed GSR rates are just and reasonable and adoption thereof would be in the public interest. Ms. McDowell also testified that adoption of the agreements reached by the parties regarding the balancing charges, as described by

Ms. Kozel, would also result in just and reasonable rates and be in the public interest.

#### **IV. FINDINGS**

21. The Commission has reviewed the Application and the parties' written and oral testimonies and has determined that it is just and reasonable and appropriate for the GSR and firm balancing rates proposed at the May 7, 2019 evidentiary hearing to be approved as final and for Chesapeake to continue to comply with the four items from prior settlement agreements identified above in Paragraph 14 and footnote 1. We also determine that the revised proposed balancing rates are just and reasonable, as are the provisions that those rates become effective on and after June 1, 2019, and that the additional revenues collected from transportation customers be reflected in the Company's over/under collection balance until the Company's next GSR application.

#### **V. ORDER**

**NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS:**

1. Chesapeake's proposed Gas Sales Service Rates are approved as just and reasonable rates, effective on and after November 1, 2018, as set forth below:

<u>Service</u>	<u>Gas Sales Service Rate</u>
RS-1, ERS-1, RS-2, ERS-2, GS, EGS, MVS, EMVS, LVS	\$0.833 per Ccf
GLR, GLO	\$0.362 per Ccf
HLFS	\$0.630 per Ccf

2. Chesapeake's originally proposed Firm Balancing Rates are approved as just and reasonable rates, effective on and after November

1, 2018, and through May 31, 2019, as set forth below:

<u>Service</u>	<u>Firm Balancing Rate</u>
GS, EGS	\$0.133 per Ccf
MVS, EMVS	\$0.158 per Ccf
LVS	\$0.107 per Ccf
HLFS	\$0.010 per Ccf
ITS	\$0.001 per Ccf

3. Chesapeake's revised proposed Firm Balancing Rates are approved as just and reasonable rates, effective on and after June 1, 2019, as set forth below:

<u>Service</u>	<u>Firm Balancing Rate</u>
GS, EGS	\$0.159 per Ccf
MVS, EMVS	\$0.189 per Ccf
LVS	\$0.127 per Ccf
HLFS	\$0.012 per Ccf
ITS	\$0.001 per Ccf

Chesapeake shall reflect the additional revenues collected from transportation customers in the Company's over/under collection balance until the Company's next GSR application.

4. Chesapeake shall continue to comply with the four items from prior settlement agreements as described above in Paragraph 15 and footnote 1.

5. No later than five (5) business days from the date of this Order, the Company shall file revised Tariffs which comply with this Order.

6. The Commission reserves the jurisdiction and authority to enter such further orders in this matter as may be deemed necessary or proper.

**BY ORDER OF THE COMMISSION:**

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Chairman

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Commissioner

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Commissioner

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Commissioner

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Commissioner

ATTEST:

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Secretary